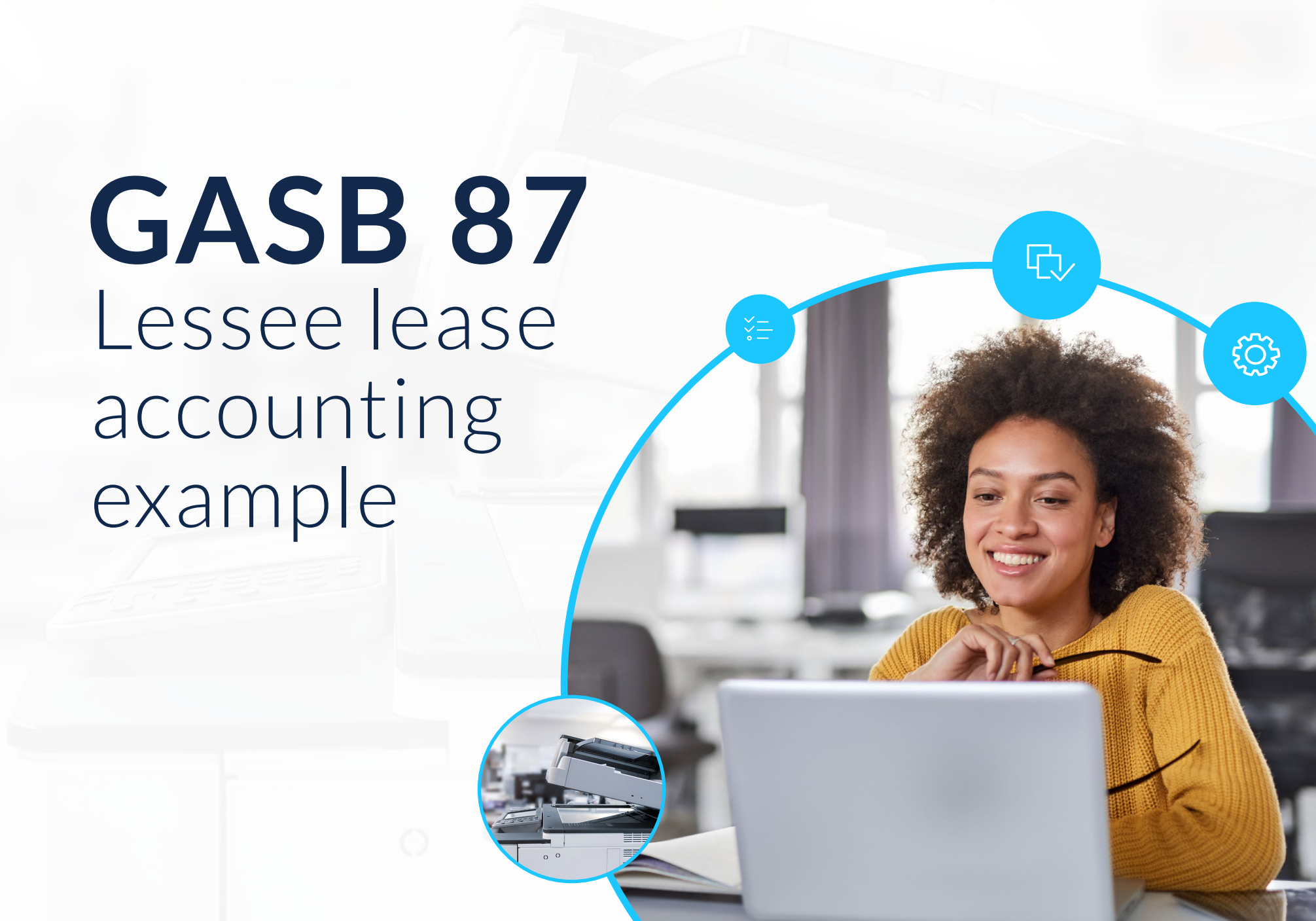


GASB 87

Lessee lease
accounting
example



Copier lease

Let's take as an example a copier lease. The copier costs \$8,000 to purchase new; the lessor is willing to lease it to you for 3 years at a price of \$250 per month, paid at the beginning of each month, commencing on July 1, 2022. Of that, \$41 is identified as the cost of maintenance. If you borrowed money for three years, you would have to pay 4% interest. If you bought the copier, you would normally depreciate it over 5 years. You have no initial direct costs; you also don't know if the lessor has any initial direct costs.

Buy copier

\$8,000
to purchase new

If you bought the copier, you would normally depreciate it over 5 years

Lease copier

3 years
lease at a price of \$250 per month

\$41
maintenance cost per month

4%
interest

Under GASB 87, you need to recognize an initial lease liability and lease assets. The initial lease liability will be measured at the present value of expected lease payments to be made by the lessee to the lessor during the lease term. Leased assets will be measured as the sum of lease liability plus any payment made to the lessor before the commencement of lease plus any initial direct cost less any incentive received from the lessor.

As the lessee, you should calculate the amortization of the discount on the lease liability. Payments made should be allocated first to the accrued interest liability and then to the lease liability. The leased asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset, subject to impairment. Any payments for non-lease component will be expensed in the P&L.

Sample finance lease journal entries, first month:

Account	Debit	Credit
Initial booking		
Right-of-use asset	7,102.59	
Current liability		2,289.69
Long-term liability		4,812.90
Monthly rent payment		
Current liability	209.00	
Non-lease component expense (maintenance)	41.00	
Cash finance rent payment		250.00

Account	Debit	Credit
Interest accrual for first month		
Interest expense	22.98	
Accrued interest		22.98
Depreciation accrual for first month		
Amortization expense	197.29	
Accumulated amortization		197.29
Liability reclassification, long-term to current		
Long-term liability	192.95	
Current liability		192.95

For this copier lease, the journal entries for month two would be:

Account	Debit	Credit
Monthly rent payment		
Current liability	186.02	
Accrued interest	22.98	
Non-lease component expense (maintenance)	41.00	
Cash		250.00
Interest accrual for second month		
Interest expense	22.36	
Accrued interest		22.36
Depreciation accrual for second month		
Amortization expense	197.29	
Accumulated amortization		197.29
Liability reclassification, long-term to current		
Long-term liability	193.60	
Current liability		193.60

Each month, the rent payment is booked in the manner shown above, depreciation and interest are accrued and expensed, and liability is reclassified from long-term to current. When the lease expires (or if it is terminated before its scheduled expiration date), the asset and liability are removed from the books, with a gain or loss recognized if the net asset and remaining liability are unequal. This is almost always the case if the lease is terminated early.

Under GASB 87, you have to disclose a maturity analysis of your future lease payments separately from other liabilities.

As of the end of year one, the disclosure would be:

The following is a schedule by years of minimum future payments on noncancelable finance leases as of June 30, 2023:

Account	
Year ending June 30	
2024	2,508
2025	2,508
Total lease payments required	5,016
Less amount representing interest	203
Present value of net minimum lease payments	4,813

Note: The table above only discloses payments associated with the lease component.

To enter this lease in EZLease, follow these steps*:

- ✓ Click 'Add new lease'
- ✓ Enter a Lease Number or name.
- ✓ Enter a Begin Date of July 1, 2022.
- ✓ Double-click on the Base Term; in the box that appears, enter 36.
- ✓ If not already, displayed, click on the Main data tab, in the Rent Steps grid, enter Gross Rent of 250.
- ✓ Enter NL Comp #1 (nonlease component #1) of 41.
- ✓ Enter a Current Economic Life of 60.
- ✓ Stay on Main data tab.
- ✓ Enter an Incremental Borrowing Rate of 4.
- ✓ Enter Fair Value of Building/Equipment of 7000.
- ✓ Click Save Lease. Note that the system automatically classified this as a Finance lease at a discount rate of 4%.

* System settings must be 6/30 Year End with a GASB 87 Implementation date of 7/1/2022.

EZLease provides fast, simple lease accounting and compliance software for ASC 842, GASB 87, GASB 96, and IFRS 16. For over 15 years, private, government and public organizations have relied on EZLease to manage and automate lease accounting for lessees and lessors across real estate and equipment assets, delivering customer-first support and deep accounting expertise. Learn more at: www.ezlease.com